Annual Report 1999 - 2000

Agriculture
Financial Services
Corporation

Finance It. Protect It. Help It Grow.

1999-2000 Board of Directors

Executive Officers

Brian Manning, *President and Managing Director*
Andrew Church, *Vice-President, Field Operations*
Rick McConnell, *Vice-President, Research, Information and Development*
Dave Schurman, *Vice-President, Finance and Administration*
Alex Wilkinson, *Vice-President, Information Technology*

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Mission Statement

We help customers in the developing agri-industry fulfill their business goals by offering unique financial services.

Agriculture Financial Services Corporation

Finance It. Protect It. Help It Grow.

Letter of Transmittal

August 15, 2000

The Honourable Ty Lund
Minister of Agriculture, Food and Rural Development
208 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the fifth annual report of the Agriculture Financial Services Corporation.

As required by Section 14 of the *Agriculture Financial Services Act* (S.A. 1993, c.A-12.5) the report contains a summary of the transactions and affairs of the Corporation and its revenues and the application of its expenditures for the fiscal year ended March 31, 2000. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of cash flows.

Yours truly,

Robert Splane
Chairman of the Board of Directors

Brian Manning
President and Managing Director

Minister's Message

As a third-generation farmer, I believe that this new century will bring great things to agriculture in the province of Alberta. As Minister of Agriculture, Food and Rural Development, I am convinced that Agriculture Financial Services Corporation (AFSC) will play a key role in keeping this promise.

That is because AFSC is in the business of providing farmers and agribusinesses with flexible, effective financial and risk management tools. In 1999-2000, AFSC clearly demonstrated that it has the right strategies and approach to truly make a difference for Alberta farmers.

While the overall industry remains in excellent shape, the past year saw many farmers being challenged by market and agronomic factors beyond their control.

The Government of Alberta, through AFSC, responded by delivering programs that helped farmers weather the storm. I am referring to the enhanced Farm Income Disaster Program (FIDP) and the new low-interest Alberta Farm Income Disaster Loan Program (AFIDLP).

Responsiveness to farmers' needs was also seen in AFSC's new lower interest rate and continued program improvements to the Beginning Farmer Loan. Clearly, farmers recognize a good product when they see one, resulting in a 26% increase in the number of Beginning Farmer Loans.

As a corporation, AFSC is following government's lead in the search for innovative ways to reduce costs while delivering high-quality services. There are numerous examples of this, but a few are especially worthy of recognition at this time.

AFSC is always conscious of minimizing the number of taxpayer dollars at risk in its insurance operations. In 1999-2000, the Corporation transferred about $100 million in insurance risk to the private sector through the use of private reinsurance.

The AFSC Board of Directors approved a governance handbook that sets structures and guidelines to ensure the business is run effectively. As well, AFSC continued to offer consulting services to other public and private sector agencies in areas where AFSC has unique expertise to share.

Value-added agriculture continues to be a priority for government, and AFSC Commercial provided funding for agribusinesses in a cost-effective manner by leveraging 80% of project costs through their alliance partners (banks, investors and other sources of capital).

These are all innovative, cost-effective ways of improving AFSC's business while at the same time creating wealth and employment in Alberta.

Still, everyone knows that Alberta's agricultural industry never stands still. What works today might not work tomorrow. With this in mind, AFSC is always looking forward and seeking new ways to improve the unique products and services it provides to farmers and agribusinesses.

As Minister, I have requested a comprehensive Crop Insurance Review during the year 2000. We want to hear from customers and non-customers alike, so we can ensure the program continues to be valuable.

As a matter of business, AFSC stays in close touch with all Albertans who have a stake in agriculture and food. They regularly use customer input to improve products and services so farmers and agribusinesses can continue to meet the opportunities and challenges facing our industry.

One example of value-added service is Alberta Management Insights (AMI), a joint program between AFSC and the department of Agriculture, Food and Rural Development that was launched in 1999-2000. AMI uses a world-class database to provide farmers with information (such as average yield results in the producer's geographic area) to help them make more informed management decisions and improve their production results.

In my view, AFSC is a showcase of how governments, departments and corporations are finding new ways to give our producers a competitive advantage in a global marketplace.

We have a lot going for us here in Alberta. We have a $100 billion economy that is one of the strongest and most dynamic in North America, with a per capita Gross Domestic Product of $34,678 - the highest in Canada.

As Albertans, we have arrived at this enviable position thanks to our entrepreneurial spirit and determination to get things done, efficiently and creatively.

I look forward to working with the AFSC Board of Directors, management and staff as we continue to provide value to farmers and agribusiness in our province.

Ty Lund

Ty Lund
Minister of Agriculture,
Food and Rural Development

Chairman's Message

1999-2000 was a year of opportunity and challenge for Alberta farmers. During the year, many producers and agribusinesses looked to AFSC to help them with innovative business solutions for their operations. In fact, AFSC processed over 50,600 transactions for insurance contracts, farm and agribusiness loans, and Farm Income Disaster Program claims for the year.

For those needing to restore stability in their operations, AFSC offered unique business products designed to respond quickly to customers' needs and help them reassess their financial picture. For those seeking better ways of doing business, AFSC added enhanced risk management options to the toolbox.

Alberta farmers, particularly those in northern parts of the province, faced another challenging year. Continued low grain prices and multiple years of adverse weather depressed the bottom line on many farms.

With the leadership of Ty Lund, Alberta's new Minister of Agriculture, Food and Rural Development, AFSC responded quickly to these farmers by making the Farm Income Disaster Program more responsive to farms experiencing multiple years of downward income pressures. More than 6,500 payments will be made totaling almost $155 million for the 1998 FIDP claim year. An additional $163 million in FIDP payments is forecast for the 1999 claim year. As well, a new low-interest loan, the Alberta Farm Income Disaster Loan Program, helped 305 farms regain financial stability with an infusion of $23 million.

While hard times were felt in many areas of the province, there were also areas of genuine opportunity in 1999-2000. For these farmers, changes to AFSC products like Crop Insurance and Beginning Farmer Loans made these products more flexible and responsive to farmers' needs. During 1999-2000, AFSC's lending activity grew to its highest level in 16 years.

On the operational side, the Corporation moved through the Year 2000 (Y2K) computer transition without a problem, while upgrades to AFSC's computer network resulted in other far-reaching enhancements and new services for customers, made possible through a new computer application called ENVOY.

ENVOY records more customer information for farm management decisions. Early in 2000, about 15,000 insurance customers received personalized reports detailing their own seeding and tillage history, plus comparisons showing how their varieties compared to others seeded in their area. ENVOY also enables our customers to obtain immediate account updates and while-you-wait insurance quotes.

Other customer-requested improvements have been the driving force behind many of AFSC's product and service updates in recent years. New this year - and offered for the first time in Canada - AFSC introduced a pilot program for corn producers that provides weather-based insurance based on heat units.

The Crop Insurance Review announced by the Minister in 1999 will give AFSC the input we need to ensure our insurance programs continue to meet the needs of Alberta farmers.

Although investment in information technology has enabled AFSC to provide value-added services, it has also resulted in a higher-than-normal administrative cost over the last few years. Expenditures for improved technology will continue to be closely monitored to ensure that this investment brings tangible benefits for our customers.

Responding to customer needs and continuously improving our products and services is key for AFSC. The goal of continuous improvement is evident in the way we manage our business. AFSC is implementing innovative business practices to enable us to manage in a fiscally prudent way that also brings increased value to our customers and stakeholders.

To this end, the AFSC Board of Directors has broken new ground by creating a governance handbook to affirm and enhance the structures and processes required to effectively govern the Corporation, as outlined in this report.

Private reinsurance is another area where internal business practices have given AFSC more flexibility and created cost-effective solutions. This year, AFSC has again transferred about $100 million in insurance liability from government to the private sector.

AFSC is also creating opportunities to generate revenue in order to help offset the cost of delivering business products and services. For the third year in a row, AFSC staff provided consulting services to British Columbia's Whole Farm Income Program, while the contracting of AFSC's insurance adjusters to public and private sector organizations generated additional revenue streams in 1999-2000.

As the agricultural industry adapts to a continuously changing business environment, AFSC will continue to seek innovative ways of doing business and responding to our customers' needs.

We have the hard work and creative thinking of our staff, management and the Board of Directors to thank for our achievements. We are confident that AFSC's financial and risk management products and services will continue to add to the growth and viability of one of Alberta's most dynamic industries.

Robert Splane
Chairman

Governance Practices

Statement of Corporate Governance Practices

AFSC is committed to the practice of sound corporate governance. In his 1999 report, the Auditor General of Alberta proposed that governance practices of agencies, boards and commissions should be improved. He also commented that there is limited reporting by boards on their governance practices.

During the past few years, AFSC's Board has concerned itself with specific governance issues and used external expertise to review some of those issues. In 1999-2000, the Corporation undertook a disciplined review of its corporate governance practices. The Board examined the key governance guidelines adopted by the Toronto Stock Exchange Inc., and reviewed current best practices outlined in governance research for Crown Corporations and not-for-profit organizations.

AFSC has developed a series of guidelines that identify and govern the roles and responsibilities of the Board of Directors.

Mandate of the Board

In addition to fulfilling its statutory requirements, AFSC's Board of Directors has identified the following 12 key areas that it must oversee and monitor:

1. Ensure that the Board is organized with necessary processes to effectively fulfill its mandate;
2. Identify the principal business risks of the Corporation;
3. Protect the Corporation's assets;
4. Establish the strategic course for the Corporation through the annual directional plan;
5. Identify business outcomes and evolve performance expectations and measurement criteria;
6. Ensure that proper internal control mechanisms are in place; ensure the integrity of those internal controls and management information systems;
7. Oversee the management of the Corporation;
8. Monitor performance results and evaluate management performance;
9. Ensure that management development and succession plans are established;
10. Orient new Board members;
11. Develop and monitor a corporate communications plan; and
12. Report results to the Minister and other Corporation stakeholders.

Board Membership

The Board should have the expertise, skills and experience necessary to represent the interests of the Corporation and its stakeholders. The Board currently is composed of eight members, one of whom is the President and Managing Director (CEO) and is considered the Board's only "related" director. The Board meets monthly to conduct the board business of the Corporation.

Board Committees

Board committees include the Executive Committee, the Audit Committee, the Credit Committee and the Appeal/Review Committee. The Audit Committee and the Appeal/Review Committee are composed of outside directors only. During the 1999-2000 fiscal year, the Executive Committee met five times, the Audit Committee met seven times, the Credit Committee met four times and Appeal or Review hearings were held 12 times.

Each committee has its own terms of reference, job description and reporting requirements. Briefly stated, the Board committee roles are as follows:

- **Executive Committee:** Conduct urgent Board business between regular Board meetings; review governance practices; review committee structure and membership; review Board performance appraisals; and review budget processes.
- **Audit Committee:** Ensure policies and objectives of the Board are integrated in the budget process; review financial statements and obtain management explanations; review internal and external audit processes and controls, and meet with external auditors; and review and recommend financial statements to the Board.
- **Credit Committee:** Authorize loans or guarantees that exceed management discretionary limits and recommend loan policy changes to the Board.
- **Appeal/Review Committee:** Hear appeals of insurance contract holders and decide claims within policy and legislation, and hear reviews of farm loan and FIDP applicants and recommend action to the Board.

Board's Expectations of Management

Under the leadership of the President and Managing Director, management is expected to prepare and implement strategic and tactical plans for the Corporation which incorporate the key goals identified in the Board's directional plan. Management is expected to supervise the day to day operations of the Corporation, achieving predetermined measurable results. Management is expected to establish systems that provide information necessary in the daily direction and management of the Corporation.

As part of its governance discipline and practice, the Board has developed a Board orientation process for new members. A Board Governance Handbook has been developed and Board members are encouraged to use it regularly. The Board has also adopted a code of conduct and ethics that is acknowledged in writing annually. As part of the annual Board evaluation, each Board member also completes a Board Performance Evaluation Questionnaire and a self-assessment of their performance as a director.

Management Commentary

"AFSC's mission is consistent from year to year. We are here to provide unique financial and risk management strategies which Alberta farmers and agribusinesses want, in a cost effective and efficient manner. And, through input from our customers, we are continually meeting the needs of an agricultural marketplace that is on the move."

Brian Manning
President and Managing Director

Management Commentary

1999-2000 Business Highlights

In 1999-2000, AFSC produced the fourth consecutive year of growth in the Corporation's core business products. This growth positions AFSC in the ranks of Canada's largest and top-performing financial services companies.

At $500 million in revenue for 1999-2000, AFSC is among the top financial institutions in the country. Based on the National Post's most recent ranking of Canada's largest corporations, AFSC is now one of the top 30 Crown Corporations in Canada (by revenue).

At the end of 1999-2000, AFSC had $1.4 billion in assets - its highest level ever, and for the first time, AFSC insured more than $1 billion in risk through Crop Insurance alone.

It is important to note that AFSC is not growing merely for the sake of growth. AFSC is growing in response to increased demand by Alberta farmers for risk management tools like insurance, lending products and FIDP. Because AFSC products are purchased solely on a voluntary basis, steady year-over-year growth is a sign that AFSC is providing farmers the financial products and services they need.

These three key areas illustrate AFSC's commitment to Albertans and agriculture.

Responding Quickly to Today's Market Realities

The past year has been challenging for some farmers - with low commodity prices, and difficult weather conditions in some locations. Throughout 1999-2000, AFSC management and staff provided new and innovative products and services.

- In October 1999, AFSC made several enhancements to the Farm Income Disaster Program to broaden eligibility for the 1998 tax year and beyond. More than 6,500 farmers will be paid about $155 million in disaster relief funds, for an average of more than $23,000 per applicant (for the 1998 tax year).
- Also in October 1999, AFSC unveiled the new Alberta Farm Income Disaster Loan Program with a low interest rate and the option to defer payments during the first two years. More than 300 farmers secured AFIDLP Loans totaling almost $23 million, with a further 183 farmers securing loans by the June 30 expiry date.

Looking for Innovation at Every Turn

Innovation is a priority of the Government of Alberta. Here, AFSC is a leader by continuously seeking new ways to conduct business, for the benefit of customers and taxpayers.

- In 1999-2000, AFSC Commercial leveraged 80% of its project costs from banks, investors and other sources of capital, at no financial risk to AFSC.
- AFSC's Board of Directors has broken new ground among Crown Corporations by creating a governance handbook to affirm and enhance the Corporation's governance structures and processes.
- AFSC has again transferred about $100 million in insurance risk to the private sector by reinsuring risk through 60 private reinsurance companies worldwide.
- Newly introduced this year - and offered for the first time in Canada - was a pilot program for corn producers that provides insurance based on heat units.
- Additional revenue streams came from non-traditional sources: claim processing for the British Columbia government and contracting AFSC's insurance adjusters to public and private sector organizations.
- Improved financial reporting now complies with the Auditor General's recommendations - "net gap" figures show potential risk if interest rates change (see Note 20, Financials), and the "fair value" of the loan portfolio is now published (see Note 7).

Adding Extra Value for our Customers

In 1999-2000, AFSC staff made remarkable efforts to deliver new technologies and products that add value to the services we provide farmers.

- More than 15,000 AFSC insurance customers received personalized Alberta Management Insights information from AFSC's world-class database that compares farmers' own practices and results to others in their area.
- Information technology re-engineering resulted in faster insurance services at the district office level, including while-you-wait quotes and proposals, and computer tracking of claims.
- Changes to the Beginning Farmer Program made it more responsive to customers' needs, resulting in a 26% increase in loans over the previous year.
- With surplus funds remaining at the end of the year, AFSC returned them to farmers who paid premiums. In 1999-2000, more than 8,100 AFSC hail insurance customers received rebates totaling $5.4 million.
- AFSC loans officers provided over 4,400 Alberta farmers with financial consulting services to guide them through their financial options.
- The full FIDP application forms were streamlined to make them simpler and easier to fill out, and AFSC introduced short forms for straightforward applications. This ensures that every farmer who needs disaster assistance can apply quickly and easily.

AFSC is a well established organization and our services are critical to a healthy and diversified Alberta farm economy. As we move ahead, we are confident the strong organization we have created will continue to successfully meet all challenges we face as we conduct our business and fulfill our mandate.

1999-2000 Corporate Business Plan

AFSC continued to meet the needs of our customers by pursuing six business goals, as outlined in the 1999-2000 Business Plan:

Business Goal 1

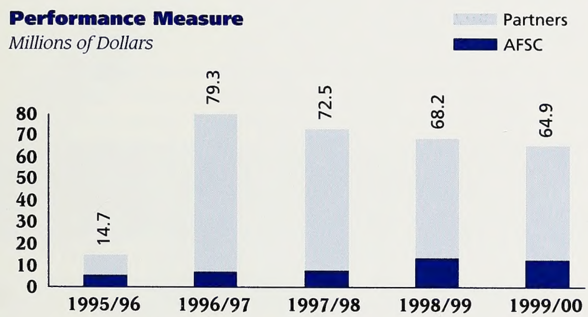
AFSC Commercial

AFSC will encourage investment in value-added production through the use of AFSC Commercial services and leveraging AFSC funds.

Progress on Goal:

- AFSC Commercial continued to provide financial products to grow value-added businesses by leveraging funds 4:1 with private sector funds, resulting in $64.9 million of value-added investment for 88 projects
- 80% of project costs were leveraged from alliance partners and investors, with AFSC's financing at $12.8 million and alliance partners' investment at $52.1 million
- financing ranging from $26 thousand to $7.5 million per loan was arranged for new and expanding agribusinesses in Alberta

Performance Measure
Millions of Dollars



Total Investment for Value-Added Business Facilitated by AFSC Commercial: 1995/96 – 1999/00

Business Goal 2

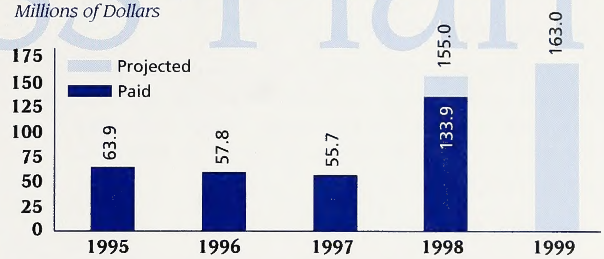
Crop Insurance

Hail Insurance

Farm Income Disaster Program

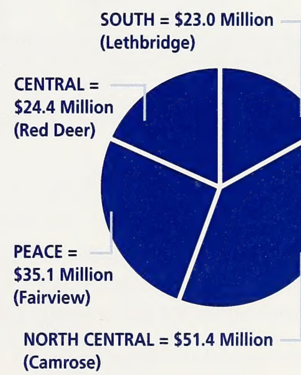
To complement the existing agriculture safety net package by March 31, 2002, AFSC will research, develop and test concepts (including alternative reinsurance initiatives, whole farm production and income insurance, and weather-based production insurance), and develop new and existing products to meet customer needs.

Amount Paid by FIDP Claim Year: 1995 - 1999
Millions of Dollars



Progress on Goal:

- under a private sector reinsurance initiative, approximately $100 million in risk per year over three years was transferred to the private sector
- with agreements in place with private reinsurance companies, Crop Insurance funds built up over previous years are better protected
- the feasibility of private reinsurance for FIDP was examined and it was concluded this was not a cost effective alternative
- research continued on the feasibility of weather-based production insurance, and for the first time in Canada, a pilot program was introduced for corn producers based on heat units
- several key FIDP enhancements were made to make the program more responsive in multiple years of disasters, resulting in approximately 2,200 more farmers accessing the program for the 1998 claim year
- for 1999 and future claim years, FIDP application and administration fees were eliminated, and application forms were simplified



FIDP Claims Paid by Area of Province
(Based on Total of $133.9 Million Paid for the 1998 FIDP Claim Year)

Business Goal 3

Beginning Farmer Loan

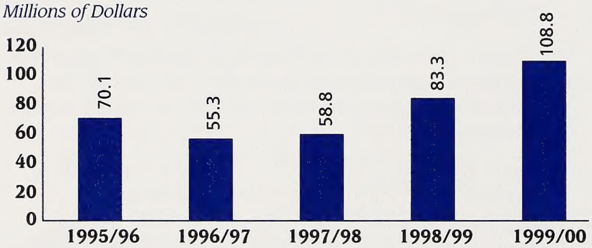
To help industry achieve the goal of $10 billion in farm cash receipts by 2005, AFSC will offer unique farm financial services to assist 1,000 beginning farmers per year by March 31, 2002 to establish potentially viable farms.

Progress on Goal:

- 997 Beginning Farmer Loans, totaling $108.8 million, were authorized - an increase of 26% over the previous year
- recent improvements resulted in the third consecutive year of growth for the program, resulting in the highest number of dollars loaned in 16 years
- improvements include a low, fixed interest rate of 7.5%, more flexible eligibility criteria, expanded loan purposes, and the potential to re-borrow as the loan is paid down

Performance Measure

Millions of Dollars



Dollars Advanced Under Beginning Farmer Loans: 1995/96 – 1999/00

Business Goal 4

AFSC Corporate

To meet or exceed customer service expectations 90% of the time by March 31, 2002, AFSC will make improvements to customer service delivery.

Progress on Goal:

- 98% of AFSC farm lending customers responding to a "client satisfaction" survey said they would recommend AFSC to somebody else
- 95% of responding farm lending customers rated overall service as good or excellent

Business Goal 5

AFSC Corporate

To provide greater flexibility in the way financial services are delivered, by the end of March 31, 2003, AFSC will have the capability to provide at least 50% of its services to customers via electronic means.

Progress on Goal:

- it is estimated that 25% of AFSC customers are using electronic means to access AFSC products and services, meeting AFSC's long-term corporate target
- insurance system re-engineering, a new accounting package, and staff training were completed, putting into place the infrastructure that will enable our customers to access our services electronically in the future

Business Goal 6

AFSC Corporate

To improve cost efficiency and grow Alberta, AFSC will market its services to other jurisdictions in Canada and internationally.

Progress on Goal:

- the *Agriculture Financial Services Act* was amended to enable AFSC to pursue opportunities and utilize staff expertise beyond its previous sphere of operations
- additional revenue streams were realized when AFSC's insurance adjusters were contracted to public and private sector organizations
- the Government of British Columbia contracted AFSC to consult on and administer certain parts of B.C.'s Whole Farm Insurance Program
- discussions were held with officials from the Government of Chile to finalize a contract to provide expertise to help them design a national crop insurance program

Summary of Operations

"Over the past year, the business of farming was difficult for many farm families in our province. Because of this, the staff of AFSC's field offices were called upon to deliver services in a challenging environment where timeliness was at a premium. I am pleased that our staff came to the table, and provided a level of service that was truly exceptional."

Andrew Church
Vice-President,
Field Operations

"The secret of AFSC's ongoing success is that we are never satisfied with the status quo. Even though our research shows a high standard of customer satisfaction and value, we are always looking to improve our programs and to offer services in new ways. That is entirely as it should be, because we know our customers are doing the same on the farm."

Rick McConnell
Vice-President,
Research, Information and Development

Summary of Operations

1999-2000 AFSC OPERATIONAL HIGHLIGHTS

AFSC Commercial

1999-2000 was a year of growth for AFSC Commercial:

- assisted in capitalization of 88 agri-industry projects worth $64.9 million
- $52.1 million, or 80% of project costs, was leveraged from alliance partners and investors at no financial risk to AFSC
- loan portfolios reached 208 accounts for a total of $66.1 million

AFSC Insurance and Income Protection

1999-2000 was a successful year for AFSC Insurance and Income Protection:

- 9.5 million acres insured against production losses, the same as the previous year
- AFSC Crop Insurance and Straight Hail Insurance covered approximately 68% of total eligible seeded acres in the province
- producers who purchased Crop Insurance and Straight Hail Insurance in 1999 insured approximately 72% of the seeded acres on their farm
- AFSC collected $169.5 million in insurance premiums (Crop with Hail Endorsement, Straight Hail and Forage)
- AFSC paid $68.9 million in insurance claims (Crop with Hail Endorsement, Straight Hail and Forage)
- more than 6,500 farmers will receive FIDP claims, totaling about $155 million, or an average of more than $23,000 per applicant (paid in 1999 for the 1998 tax year)
- about $163 million in FIDP payments are forecasted for the 1999 claim year

AFSC Farm Lending

1999-2000 was a year of growth for AFSC Farm Lending:

- AFSC made 1,369 loans to farm families, for a total of $139.4 million to help in the development of their farm operations, an increase of 24% over the previous year
- Beginning Farmer Loans helped 997 new farmers with loans totaling $108.8 million, a 26% increase in the number of farmers compared to the previous year (figure includes Vendor Mortgage Loans)
- the new Alberta Farm Income Disaster Loan Program helped 305 farmers with loans totaling almost $23 million
- 61 Developing Farmer Loans totaled $7.3 million (fewer loans than the previous year due to the introduction of the AFIDLP Loan)

Summary of Operations

AFSC Commercial - Year in Review

AFSC Commercial offers a unique portfolio of innovative financing options, financial strategies and market knowledge to Alberta agri-industry. This includes companies in food processing, commercial-scale intensive livestock production, nutraceuticals, processing of other products sourced from agriculture (eg. cosmetics or recycled rubber products for agriculture), as well as manufacturing and services supporting the industry.

To help meet the capital needs of the rapidly expanding agri-industry, AFSC Commercial collaborates with alliance partners from the private and public sectors to facilitate financing through:

- ***Senior Debt Financing***
- ***Junior Debt Financing***
- ***Syndicated Loans***
- ***Capital Sourcing***
- ***Market Plan Assessments***
- ***Financial Re-structuring***

In 1999-2000, AFSC Commercial helped grow the agri-industry by:

- providing financing ranging from $26,000 to $7.5 million per loan to new and expanding agri-industry businesses, such as food processors, farm service companies and processors of other products sourced from agriculture
- lending directly only $12.8 million, thus meeting the government objective of fiscally-responsible government lending (the other 80% of new project capital came from external alliance partners and investors)
- obtaining $5.1 million in financing from various capital sources for five Alberta companies, on a fee-for-service basis

AFSC has supported the development of many of Alberta's agri-industry leaders. AFSC Commercial provides unique financing services to the agri-industry in an innovative and cost-efficient manner. The Corporation looks at every option available - from partnering with other lenders and banks, to bringing in a variety of investors - to get the best possible financial solution for Alberta agri-industry businesses.

Number of Businesses AFSC Commercial Assists with Financing Each Year

Business Type	1995/96	1996/97	1997/98	1998/99	1999/00
Food Processors	15	7	14	26	43
Non-food Processors	3	3	1	2	7
Farm Services	9	11	10	15	26
Other	3	5	7	8	3
Total	30	26	32	51	79

AFSC Insurance and Income Protection - Year in Review

The Canada-Alberta Crop Insurance program is Alberta's major crop protection program. It is available on 48 different crops and a multitude of varieties within each crop through:

- ***Crop Insurance***
- ***Hail Insurance***
- ***Forage Insurance***
- ***Waterfowl and Wildlife Damage Compensation***

The Farm Income Disaster Program is a whole-farm safety net program that provides assistance to farmers whose net margin drops by more than 30%, compared with the average of the best three of the previous five years.

In 1999-2000, AFSC insurance and income protection products helped Alberta farmers in the following ways:

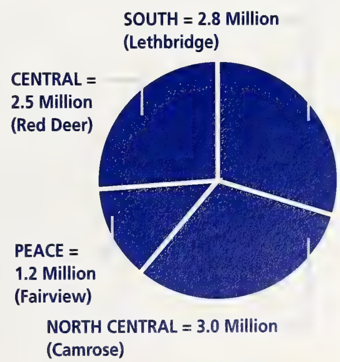
Crop Insurance

Crop Insurance is available for acreage seeded to grain and oilseed crops, honey production, corn, sugar beets, vegetables and a number of specialty crops. Crop Insurance covers farmers against production-related risks by offering coverage based on a percentage of long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that insured farmers sustain as a result of insurable natural perils. The pre-determined price, or 'price option', is set annually before the crop season, and attempts to closely reflect the current year's market price.

In 1999-2000, Crop Insurance acres in the province remained consistent, but the number of contracts was down slightly, caused by the trend towards larger farms that insure more acres. It is significant to note that for the 1999 crop year, farmers insured more than $1 billion in liability through Crop Insurance alone, the highest level ever in AFSC's history.

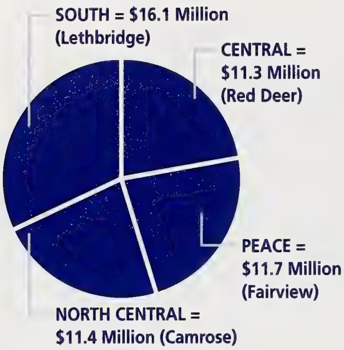
Highlights include:

- Crop Insurance purchased on 9.5 million acres in 1999, comparable to 1998 levels
- Crop Insurance policyholders insured about 90% of their seeded acreage in 1999, compared to 70%-80% in previous years



Crop Insurance Acres Insured by Area of Province
(Based on Total of 9.5 Million Acres)

Summary of Op



Crop Insurance Losses Paid by Area of Province
(Including Hail Endorsement, but Excluding Honey and Processing Vegetables)

- total premiums collected (including Hail Endorsement) fell to $140.9 million from $146.3 million the previous year
- claims paid (including Hail Endorsement) totaled $51.7 million, lower than the previous year's $86.2 million, and well below the long-term average for loss-to-premium ratios
- 60 private sector reinsurance companies worldwide reinsured AFSC against extreme crop insurance losses (between 115% and 180% of premiums collected) which reduced government risk by about $100 million in 1999

Forage Insurance

Forage Insurance offers a specific production guarantee to producers maintaining hay and pasture acres in the province. Based on input from producers in the province, AFSC cancelled the pasture component of the program for the 2000 crop year. Figures below include the pasture component, which was still available for the 1999 crop year.

For 1999-2000, participation in the Forage Insurance program remained consistent compared to the previous year:

- participation fell slightly to 2,377 contracts compared to 2,447 the previous year
- acres covered were 2.3 million acres, down slightly over the previous year's 2.7 million acres
- $8.8 million in Forage premiums collected
- $6.2 million in Forage claims paid - mostly in the North Central, Peace and South regions of the province

Hail Insurance

Straight Hail Insurance is available for farmers as affordable one-peril coverage. Straight Hail can be taken in addition to Crop Insurance coverage, or on its own. Farmers insure up to a maximum dollar coverage per acre, with losses paid based on the percentage of damage that occurs. The Hail program is entirely self-sustaining and operates without government funding.

Sales for Hail Insurance were down slightly in 1999-2000. As with Crop Insurance, this was due to the trend toward larger farms, thus fewer contracts:

- total 1999 contracts were at 8,129, down from 9,177 the previous year, and acres covered decreased slightly to 4.4 million acres
- efficient administration and an operating surplus after claims resulted in a $5.4 million rebate paid to more than 8,100 hail insurance customers in 1999
- $19.8 million in Hail premiums collected (not including Hail Endorsement under Crop Insurance)
- $11.0 million in Hail claims paid

Highlights of Insurance Operations

1999 Crop Year	Contracts	Acres (M.)	Premiums ($M.)	Claims ($M.)
Crop	14,786	9.5	$ 103.9	$ 28.9
Hail Endorsement*	11,145	7.1	$ 37.0	$ 22.8
Forage	2,377	2.3	$ 8.8	$ 6.2
Straight Hail	8,129	4.4	$ 19.8	$ 11.0
Total			$ 169.5	$ 68.9

* Hail Endorsement is purchased as part of the Crop Insurance policy

Waterfowl and Wildlife Damage Compensation

The no-premium Waterfowl and Wildlife Damage Compensation program covers crop losses caused by migratory waterfowl, big game animals and upland game birds. Payment covers damaged crop that is either standing or in swaths.

With harvest completed at its usual time in September 1999, some crops were still on the field at the time of migration and became susceptible to waterfowl or wildlife damage. This resulted in a total of 548 claims amounting to $2.1 million. The previous year's claims were much lower (245 claims for $659,000), due to an unusually early 1998 harvest in which crops were off the field before significant damage occurred. Results in 1999 were more typical for this program.

Farm Income Disaster Program

FIDP compensates farmers for losses in farm income of 'disastrous' proportions, and is a whole-farm safety net program with all agricultural commodities eligible.

More than 6,500 farmers will be paid about $155 million for the 1998 claim year - over $23,000 per applicant.

Significant changes to FIDP introduced during 1999-2000 were effective for the 1998 claim year:

- the reference period was expanded from three (immediately past) years to five years, and the reference margin calculation is now based on the three highest program margins out of the past five years
- provision was made in the calculation of the reference margin to provide support to expanded farm operations
- negative margins in the reference period are set to zero prior to calculation of reference margin
- the maximum eligible NISA contribution for the claim year only will be deducted from claim amounts

- the application deadline was extended to February 29, 2000 to enable new applicants to submit FIDP applications for the 1998 claim year
- those who previously applied under FIDP could submit supplementary information for the 1998 claim year so AFSC could reprocess claims under the revised rules

In 32 meetings around the province with farmers, AFSC explained the revised FIDP rules, and most farmers welcomed the program changes.

For the 1999 claim year, further improvements will be made, including a short form FIDP application and elimination of application and administration fees.

AFSC staff also provided expertise to groups outside the Corporation in the following ways:

- FIDP staff provided claims processing for B.C.'s Whole Farm Insurance Program for the second year in a row
- AFSC worked closely with the Government of Canada to develop policies and procedures for the national Agricultural Income Disaster Assistance Program (AIDA)

AFSC Farm Lending - Year in Review

AFSC takes a long-term approach to farm lending by offering loan products with competitive interest rates (usually fixed for the life of the loan), incentives to reduce Beginning Farmer Loan principal or payments, and flexible repayment terms. Staff also offer financial consulting to farmers needing help when their financial situation changes. AFSC Farm Lending products include:

- ***Beginning Farmer Loan***
- ***Vendor Mortgage Loan***
- ***Developing Farmer Loan***
- ***Disaster Assistance/Crop Loss Option Loan***
- ***Alberta Farm Income Disaster Loan Program (program expires June 30, 2000)***
- ***Alberta Farm Development Loan***
- ***Specific Guarantees (on loans from other lenders)***

Beginning Farmer and Vendor Mortgage Loans

Beginning Farmer Loans provide long-term, fixed-rate loans for new entrants into farming, giving them a healthy start in agriculture. An AFSC Vendor Mortgage Loan allows the seller of a property/operation (usually, but not always, the buyer's parents) to finance a sale by holding the mortgage for the purchaser.

Highlights for 1999-2000 included:

- total loan amounts for Beginning Farmer and Vendor Mortgage Loans increased to $108.8 million, up from $83.3 million the previous year
- a total of 997 loans, an increase of 26% in one year, with an average loan amount of about $109,127
- client-requested improvements to the Beginning Farmer Loan included a low 7.5% interest rate, the opportunity to re-borrow as a loan is paid down or paid out, the inclusion of working capital as a loan purpose, and the removal of the 10-year window for eligibility

Developing Farmer

Developing Farmer Loans help primary producers whose farm operation is in a more advanced stage of development through long-term loans with fixed rates of interest.

Participation in the program declined significantly in 1999-2000:

- the newly announced one-year program AFIDLP (see below) was put in place to respond to multiple years of drought and other adverse weather in the Peace and northeast areas of the province
- farmers used Developing Farmer Loans primarily to restructure their farms
- a total of $7.3 million was disbursed for 61 Developing Farmer Loans

Disaster Assistance/Crop Loss Option Loan and Alberta Farm Income Disaster Loan Program

The Disaster Assistance/Crop Loss Option Loan is AFSC's ongoing program that helps producers through multiple years of weather-related losses that are beyond the farm management's control. In 1999, AFSC introduced AFIDLP to help farmers restore sufficient working capital to maintain farming operations and provide financial restructuring after an agricultural disaster.

A total of 311 Disaster Assistance Loans were made for a total of $23.3 million:

- to March 31, 2000, 305 AFIDLP Loans were made totaling almost $23 million
- a total of $320,000 was disbursed for six Disaster Assistance/Crop Loss Option Loans

Other Guaranteed Loan Programs

Alberta Farm Development Loan guarantees totaled $50.7 million, down from last year's $61.5 million.

Lending Performance

AFSC continues to maintain a well-managed portfolio with accounts in arrears greater than one year, and dollars of arrears compared to dollars in the portfolio both remaining constant.

Farm Financial Consulting

AFSC loans officers helped significantly more producers than the previous year with financial consulting services to guide them through challenges facing their farms. Over 4,400 farmers received help assessing their financial options, restructuring their debt or working out alternate arrangements with existing creditors.

Summary of Operations

Human Resources: AFSC Employees Feel Valued

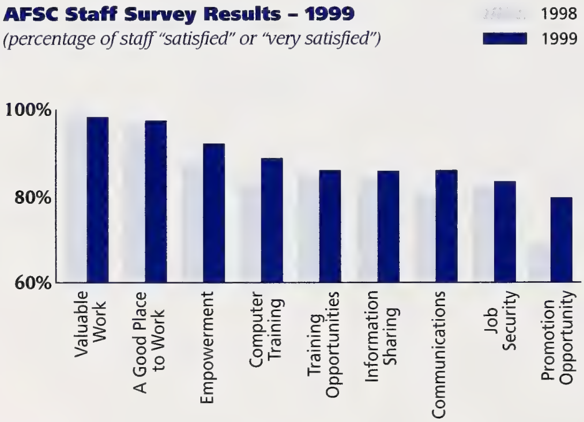
The successful operational side of the business is a reflection of the internal workings of a business, but at AFSC, we know that none of this would be possible without well trained, focused and motivated staff.

Our staff is a valuable resource - whether they are relating to a customer in the field, or refining computer skills to enhance our business.

In 1999-2000, AFSC's Human Resources made progress in implementing several new initiatives for the betterment of our staff. And, efforts to continually improve the working environment of our staff have paid off.

A recent survey shows AFSC employees feel valued, challenged and satisfied with the important work they conduct for Alberta farmers and agribusinesses. This is just a sampling of what employees tell us about their work:

AFSC Staff Survey Results – 1999
(percentage of staff "satisfied" or "very satisfied")



As a further indication of job satisfaction, AFSC's absenteeism is considerably lower than the national average. In 1999, when compared to the Canadian average, days absent for AFSC staff were 29% lower.

Responding to Staff-Requested Improvements

The 1999 survey showed high job satisfaction, but there were areas for improvement. The strongest suggestion to come out of that survey was a wish to improve the job classification system, thus making it more understandable and accessible to all staff.

As a result, AFSC is implementing a new "JPS Classification" system which will better define job descriptions and classifications, and make career planning information and job postings accessible on an internal AFSC staff website. To date, over 400 AFSC employees (or approximately 60% of staff) have completed questionnaires to help make this program meaningful.

Succession Planning and Training

To ensure continuous and consistent operations, we place special emphasis on two areas: helping staff transition between jobs and career paths, and current training initiatives.

AFSC provides a unique and valuable succession planning program called Encore, a one-of-a-kind initiative in government. Retiring AFSC staff have the option of returning to AFSC after retirement for up to 84 days a year in three successive years. This allows them to ease into retirement while providing valuable mentoring to AFSC staff.

Employees declare their intention to participate in Encore one year in advance. This gives all parties the ability to plan for the retirement, line up successors, and/or re-engineer the position. This flexibility benefits both AFSC and our employees.

Training opportunities are ongoing at AFSC, and a formal Corporate Training Plan is under development. The Corporate Training Committee will ensure training needs are reviewed from a corporate-wide perspective, and that career needs continue to be matched with effective job competency training.

Rewarding Good Ideas and Actions

To keep staff motivated, AFSC rewards excellence, encourages best practices, and advocates idea generation at all levels of the Corporation.

The Customer Services Management Team continually looks at ways of improving customer service, and one successful initiative has been the "Red Barn Suggestion Program". Suggestion boxes are placed in AFSC offices for the collection of employee ideas. One employee per year is rewarded with a $1,000 training bonus, or $750 in cash for an innovative suggestion that enhances any aspect of AFSC's business.

Customer service is a high priority at AFSC. The President's Award recognizes excellence in this area. Employees are nominated by their farm and agribusiness customers, or their colleagues. Each year, two awards are given for excellence in internal and external customer service, and recipients of the award receive their choice of a $1,000 training bonus, or $750 in cash.

These are just some of the ways AFSC provides acknowledgement of a job well done. AFSC's Board and Management would like to formally recognize the significant contribution of our staff, and credit them for another outstanding year of bringing value to the agricultural industry.

Summary of Activities

Summary of Lending

	Authorizations 1999/2000		Authorizations 1998/99		Accumulated Authorizations June 1972 - March 2000		Active and Outstanding March 31, 2000	
	No.	$M.	No.	$M.	No.	$M.	No.	$M.
Farm Direct Loans								
Beginning Farmer	995	108.4	787	82.8	17,751	1,865.8	8,424	614.1
Developing Farmer	61	7.3	238	14.1	494	41.6	297	24.3
Disaster Assistance	311	23.3	78	4.2	409	28.6	506	23.8
Other	0	0.0	0	0.0	6,640	362.9	525	14.9
Subtotal	**1,367**	**$139.0**	**1,103**	**$101.1**	**25,294**	**$2,298.9**	**9,752**	**$677.1**
Farm Guarantees								
Specific Guaranteed Loans	0	0.0	1	0.1	2,390	105.4	12	0.9
Alberta Farm Development Loans	1,994	50.7	2,464	61.5	165,000	2,149.9	8,870	149.7
Vendor Mortgage Loans	2	0.4	4	0.5	89	9.2	64	5.6
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	22	0.3
Subtotal	**1,996**	**$51.1**	**2,469**	**$62.1**	**167,479**	**$2,264.5**	**8,968**	**$156.5**
TOTAL FARM	**3,363**	**$190.1**	**3,572**	**$163.2**	**192,773**	**$4,563.4**	**18,720**	**$833.6**
Commercial								
Direct Loans	58	11.1	42	13.5	467	171.5	145	31.0
Specific Guaranteed Loans	4	1.7	0	0.0	507	204.8	2	0.2
Canada-Alberta Partnership on Agri-food	0	0.0	0	0.0	69	17.4	29	2.0
Local Opportunity Bonds	0	0.0	0	0.0	3	2.1	2	1.1
Farm Credit Corporation Loans	13	4.7	13	12.9	50	58.3	27	23.1
Other	42	29.3	17	27.5	74	100.3	3	8.7
Total Commercial	**117**	**$46.8**	**72**	**$53.9**	**1,170**	**$554.4**	**208**	**$66.1**
CORPORATE GRAND TOTAL	**3,480**	**$236.9**	**3,644**	**$217.1**	**193,943**	**$5,117.8**	**18,928**	**$899.7**

Summary of Farm Income Disaster Program

Claims paid as of June 30, 2000	Claim Year - 1998*		Claim Year - 1997		Claim Year - 1996		Claim Year - 1995	
Region	Number of Claims	Amount Paid $M.	Number of Claims	Amount Paid $M.	Number of Claims	Amount Paid $M.	Number of Claims	Amount Paid $M.
Lethbridge	816	23.0	359	8.3	426	9.4	447	8.7
Red Deer	1,059	24.4	498	8.3	783	12.4	992	12.4
Camrose	2,605	51.4	1,236	17.0	1,618	22.7	3,180	38.8
Fairview	1,550	35.1	1,050	22.1	798	13.3	332	4.0
Total Claims paid	**6,030**	**$133.9**	**3,143**	**$55.7**	**3,625**	**$57.8**	**4,951**	**$63.9**

* Farm Income Disaster Program claims paid for the 1998 tax year. Out of 8,132 claims submitted for $207.5 million, 6,030 claims for $133.9 million were paid as of June 30, 2000.
There were 1,208 declined or ineligible claims, and the remaining 894 claims are in the process of verification.

Summary of Activities

Summary for Crop Insurance by Crop Year

As of June 28, 2000

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1995	16,162	8,315	676,822	86,623	4,793	31,602	36.5
1996	14,303	7,311	785,076	87,937	4,143	33,989	38.7
1997	15,464	8,493	899,170	99,972	5,888	52,196	52.2
1998	15,470	9,469	971,948	105,487	5,364	60,865	57.7
1999	14,786	9,449	$1,014,024	$103,918	3,157	$28,926	27.8

Summary for Hail Endorsement by Crop Year

As of June 28, 2000

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1995	10,038	5,120	441,200	24,484	2,413	20,331	83.0
1996	9,738	5,068	565,762	29,991	1,847	19,268	64.2
1997	11,154	6,226	691,816	39,154	1,884	17,215	44.0
1998	11,669	7,012	754,070	40,815	2,010	25,309	62.0
1999	11,145	7,107	$797,994	$37,009	2,037	$22,820	61.7

Summary for Forage Insurance by Crop Year

As of June 28, 2000

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1995	1,964	1,080	14,865	3,464	1,246	5,976	172.5
1996	1,952	1,135	17,960	4,413	541	1,530	34.7
1997	1,641	1,010	15,213	3,618	432	2,084	57.6
1998	2,447	2,740	45,454	9,355	1,780	14,530	155.3
1999	2,377	2,312	$41,532	$8,774	989	$6,229	71.0

Summary for Straight Hail Insurance by Crop Year

As of June 28, 2000

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1995	9,882	4,845	441,270	21,801	2,078	18,841	86.4
1996	12,518	6,346	662,272	31,802	1,819	19,157	60.2
1997	9,735	4,836	474,113	24,092	1,369	10,239	42.5
1998	9,177	4,824	454,518	22,401	1,174	11,696	52.2
1999	8,129	4,415	$424,822	$19,832	1,279	$11,046	55.7

Waterfowl/Wildlife Compensation Program by Crop Year

As of June 28, 2000

Crop Year	Wildlife Number of Losses	Losses $,000	Waterfowl Number of Losses	Losses $,000	Total Number of Losses	Losses $,000
1995	267	550	280	687	547	1,237
1996	1,498	4,393	1,367	6,645	2,865	11,038
1997	418	2,108	706	3,106	1,124	5,214
1998	142	407	103	252	245	659
1999	155	$636	393	$1,497	548	$2,133

Financial Statements

"Being fiscally responsible begins with a deep-down respect for the taxpayer's hard-earned dollars. At AFSC, it also means searching for new ways to keep our costs in line, and reduce our financial risk as a Crown Corporation. For example, by transferring some of AFSC's insurance risk to the private sector, we are able to provide a critical service in a financially efficient manner."

Dave Schurman
Vice-President,
Finance and Administration

"Now that the Y2K issue is safely behind us, we can be proud of how well AFSC prepared for the new millennium. Our next challenge is to fully leverage our existing investment in information technology to gradually make more AFSC programs and services available electronically. Many customers have asked for this option, and it is our job to make it happen."

Alex Wilkinson
Vice-President,
Information Technology

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with generally-accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Brian Manning

Brian Manning
President
and Managing Director

Dave Schurman, C.A.
Vice-President,
Finance and Administration

Auditor's Report

AUDITOR GENERAL *Alberta*

Alberta Legislature
Office of the Auditor General

To the Board of Directors of the
Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2000 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

Peter Valentine
FCA
Auditor General
Edmonton, Alberta
May 12, 2000

Balance Sheet

As at March 31, 2000

(in thousands)

	2000	1999 (Restated)
Assets		
Cash	$ 23,166	$ 37,405
Accounts receivable (Note 6)	4,916	3,671
Due from Province of Alberta	71,174	15,644
Due from Government of Canada	147,712	61,380
Loans receivable (Note 2(1), 7)	710,202	671,119
Investments (Note 8)	439,093	347,054
Property held for sale (Note 9)	41	127
Capital assets (Note 10)	17,363	13,212
	$ 1,413,667	$ 1,149,612
Liabilities and Surplus		
Accounts payable and accrued liabilities	$ 18,462	$ 18,196
Estimated indemnities payable (Note 2(1), 11)	226,638	95,407
Due to Crop Reinsurance Fund of Alberta (Note 12)	53,528	53,564
Allowance for losses on loan guarantees (Note 19)	2,649	3,140
Debentures and notes payable (Note 13)	684,889	655,585
Deferred Revenue (Note 14)	19,667	14,013
	1,005,833	839,905
Surplus	407,834	309,707
	$ 1,413,667	$ 1,149,612

Approved by the Board:

Bernie Kotelko
Director

Brian Manning

Brian F. Manning
President and Managing Director

The accompanying notes and schedules are part of these financial statements.

Statement of Revenue, Expense and Surplus

For the year ended March 31, 2000

(in thousands)

	2000 Budget (Note 3(a))	2000 Actual (Schedule 1)	1999 Actual (Restated)
Revenue			
Premiums from insured persons, net (Note 15)	$ 67,937	$ 66,563	$ 70,829
Interest (Note 16)	50,741	50,646	49,869
Contribution from Province of Alberta, net (Note 15)	336,142	202,416	70,911
Contribution from Government of Canada, net (Note 15)	93,304	153,569	108,289
Investment income	20,140	20,912	18,408
Fees and other income (Note 3(c))	6,282	4,464	3,969
Amortization of loan discounts	1,244	1,081	2,141
	575,790	499,651	324,416
Expense			
Indemnities (Note 15)	405,697	301,724	171,292
Interest	50,547	46,822	51,443
Administration, Schedule 2 (Note 3(c))	43,007	39,387	34,267
Farm loan incentives	4,674	5,637	3,858
Selling commissions	1,800	1,611	1,704
Provision for doubtful accounts and for losses (Note 18)	4,520	6,394	(395)
	510,245	401,575	262,169
Excess of revenue over expense before recoveries	65,545	98,076	62,247
Net recoveries, Schedule 1	–	51	2
Surplus for the year	$ 65,545	98,127	62,249
Surplus at beginning of year		309,707	247,458
Surplus at end of year		$ 407,834	$ 309,707

Statement of Cash Flows

For the year ended March 31, 2000

(in thousands)

	2000	1999 (Restated)
Operating activities		
Surplus for the year	$ 98,127	$ 62,249
Changes not affecting cash	(2,137)	(8,640)
Changes in assets and liabilities relating to operations	(18,513)	(12,615)
Net cash provided by operating activities	77,477	40,994
Investing activities		
Proceeds from repayments of loans receivable and sale of properties	88,392	101,676
Loan disbursements	(135,363)	(108,172)
Change in investments	(79,965)	(63,432)
Purchase of capital assets	(6,701)	(7,700)
Proceeds on disposal of capital assets	19	29
Net cash utilized by investing activities	(133,618)	(77,599)
Financing activities		
Borrowing from the Province of Alberta	861,758	494,081
Repayment of borrowing from the Province of Alberta	(826,303)	(481,570)
Government of Canada funding for capital assets	2,799	2,972
Province of Alberta funding for capital assets	3,648	4,426
Net cash provided by financing activities	41,902	19,909
Net decrease in cash from operating, investing and financing activities	(14,239)	(16,696)
Cash at beginning of year	37,405	54,101
Cash at end of year	$ 23,166	$ 37,405

Notes *to the* Financial Statements

March 31, 2000

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12.5, 1993.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and farm income disaster payments. It also delivers other programs and services including loans to developing farmers, disaster loans, loan guarantees and business planning/ counseling. The Corporation acts as Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized.

Premiums, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for capital asset acquisitions are deferred and recognized based on the same schedule as the capital assets are amortized.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Farm Income Disaster Program application and administration fees are accrued based on the number of applications and the amount of estimated indemnities. Other fees are recorded when the Corporation completes the applicable service.

(b) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the daily cash balance at the average rate of CCITF earnings, which varies depending on prevailing market interest rates.

(c) Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost, adjusted for allowance for doubtful accounts, if applicable; which is considered to be equivalent to fair value. This approach applies to cash, accounts receivable, Due from Province of Alberta, Due from Government of Canada, accounts payable and accrued liabilities, estimated indemnities payable and Due to Crop Reinsurance Fund of Alberta. Allowance for losses on loan guarantees does not have fair value disclosed due to the difficulty in determining the amount. Fair values of loans receivable, investments, debentures and notes payable are disclosed in their respective notes.

(d) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, when the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(e) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Computer equipment	5 years
Software development costs	10 years
Equipment and furniture	10 years
Vehicles	5 years

(f) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

(g) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated but not specifically identified losses. Since the amounts and timing of future cash flows cannot be estimated with reasonable reliability, specific provisions are established by discounting the estimated fair value of security. The change in the present value attributed to the passage of time on the expected future cash flow is adjusted against the provision for doubtful accounts.

An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations and hence, is subject to higher risk than portfolios of other lenders. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

(h) Loan Discounting

Loans made under the Alberta Farm Income Disaster program, Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(i) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(j) Reinsurance Ceded

Premiums, Contributions from the Province of Alberta, Contributions from the Government of Canada and Indemnities are recorded net of amounts ceded to or recoverable from reinsurers.

(k) Transactions with Related Parties

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party, except for donated services (see Note 3(c)(ii)).

(l) Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount.

Estimated indemnities payable, recorded as $226,638,000 in these financial statements, is subject to measurement uncertainty.

Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Corporation implemented the Farm Income Disaster program for the 1995 claim year. The Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin for the farming business falls below 70% of the average margin for the best three of the previous five years, an indemnity may be payable. Applications can be submitted for the 1999 tax year until July 31, 2000 and indemnities are paid after applications are received and approved.

The Corporation has recorded a liability to provide for estimated indemnities payable under the Program of $226 million. Indemnities to be paid for the 1999 tax year may be more or less than the estimated $163 million because the majority of the 1999 applications are not received until after March 31, 2000. It is also difficult to predict the estimated indemnities payable because of the impact disasters have on gross margins. The estimated indemnities payable may be as low as $141 million or as high as $192 million. Indemnities payable under the Program are limited to a maximum of $200 million for claims from producers who have year ends in any fiscal year.

Loans receivable, recorded as $710,202,000 in these financial statements, is subject to measurement uncertainty. Loans receivable includes a provision of $26,084,000 for losses on loans. The provision estimated by management (see Note 2(g)) could change significantly in the future, leading to a material change in the provision for losses amount recorded.

Note 3 Financial Structure

(a) The budget is derived from information contained in the Ministry of Agriculture, Food and Rural Development's Business Plan which is included as supplementary information in the 1999-00 Government Estimates. The original budget was approved by the Board of Directors on August 11, 1998 and a revised budget, reflecting the enhancements to the Farm Income Disaster Program, the introduction of the Alberta Farm Income Disaster loan program and current forecasts of other amounts was approved by the Board on March 23, 2000. The revised budget reflects contributions from the Province of Alberta of $342,125,000 which was authorized through the Legislative Assembly.

The contribution from the Province of Alberta was adjusted by $5,983,000 for ceded reinsurance and deferred revenue. The contribution from the Province of Alberta has not been adjusted for the transfer of the 1999-00 supplementary estimate for achievement bonus.

(b) Insurance, Safety Net and Compensation Programs

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance Coverage up to 50%(1) of risk	Producers 20% Alberta 40% Canada 40%	Crop Insurance Fund, Private Sector Reinsurance and Government Reinsurance Funds	50% Alberta 50% Canada
Coverage greater than 50% and Hail Endorsement	Producers 50% Alberta 25% Canada 25%		
Farm Income Disaster	N/A	Alberta(2) 52% Canada(2) 48%	Producer fees covered about 33% for 1998 claims and Alberta/ Canada covered the balance. Alberta/ Canada will cost-share 100% in subsequent claim years.
Hail Insurance	100% Producers	Hail Insurance Fund	100% Producers
Wildlife Compensation			
Waterfowl	N/A	50% Alberta 50% Canada	50% Alberta 50% Canada
Other	N/A	100% Alberta	100% Alberta

(1) Coverage does not include Hail Endorsement.

(2) Based on the Federal-Provincial Agreement establishing the Agricultural Income Disaster Assistance Program, the Government of Canada and the provincial governments have agreed to fund an agricultural disaster program called the Agricultural Income Disaster Assistance Program (AIDA). It has been further agreed that Alberta's Farm Income Disaster Program (FIDP) will be used to deliver the majority of this assistance in Alberta. The Government of Canada has a national cap of $870 million for the two years for which AIDA has been approved. Program costs are shared 60% by the Government of Canada and 40% by the provinces where program criteria are similar. Where criteria are different, Alberta funds 100% of the portion of indemnities which are not based on similar criteria. The Government of Canada has informed the provinces that it may be necessary to prorate the federal share of claim payments for the 1999 claim year by as much as 50% in order for Canada to stay within its approved budget for the national program. Therefore, the amount due from Canada may be less than 48% and consequently the amount due from Alberta would reflect an offsetting increase so that total payments to producers would not change.

The Crop Insurance and Waterfowl Compensation programs are administered in accordance with an agreement between the Province of Alberta and the Government of Canada. The agreement determines the percentage of premiums used to fund reinsurance and how indemnities are paid from each of the crop insurance and crop reinsurance funds. During the years ended March 31, 1999 and March 31, 2000, no premiums were transferred to the Crop Reinsurance Fund of Alberta or the Crop Reinsurance Fund of Canada for Alberta. No transfers were required by the agreement because fund balances are deemed adequate to meet indemnity payments.

(c) Lending Programs

(i) The Corporation's loans are funded by short and long term borrowing from the General Revenue Fund through the Canadian Note Program On-Lending Agreement. This agreement provides for the Corporation to obtain financing from the Province on the same terms at which the Province borrows that money. The Corporation has a maximum line of credit of $900 million for lending purposes. Prior to April 1, 1995, loans were funded through

debentures issued to the Alberta Heritage Savings Trust Fund. The Corporation's lending operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development. The Canada-Alberta Partnership on Agri-food is funded by the Province of Alberta and the Government of Canada.

(ii) Certain office accommodation and support costs, amounting to $816,000 (1999 $713,000) provided by the Departments of Agriculture, Food and Rural Development and Alberta Infrastructure are included in the expenses of the Corporation. Since the Corporation is not charged for these costs, donated revenue of $816,000 has been included in fees and other revenue to reflect the value of these services. Some telecommunication services provided by Alberta Infrastructure are not included in the expenses because there is not sufficient information available to quantify the costs. These costs are not considered significant relative to the overall administrative costs of the Corporation.

Note 4 Loan Programs and Repayment Options

(a) Beginning Farmer Program

This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 1-1/2% of outstanding principal over each of the first five years of the loan. Beginning Farmer Loans are made for terms of up to 20 years with interest at 7-1/2% and are secured by land and other farm assets.

(b) Commercial Loans

Commercial Loans are available to help meet the capital needs of the value-added and agri-food industry in Alberta. Loan terms and rates are similar to other financial institutions.

(c) Developing Farmer Program

The program provides loans to eligible farmers who are unable to obtain commercial or other financing at reasonable terms elsewhere. Loan interest rates are fixed for terms of up to 20 years. Interest rates are based on cost of borrowing for the Province of Alberta.

(d) Alberta Farm Development Loans

Alberta Farm Development Loans are issued by financial institutions to provide short and medium term financing for producers of agricultural products in Alberta. These loans can be for a maximum of $100,000 per individual, partnership or company. The repayment terms are for periods of 20 years or less and interest rates are equal to one of the following:

- lender's prime rate plus 1% for loans up to 10 years with variable rates; or
- lender's prime rate plus 1-1/2% for loans over 10 years, and for fixed rate loans.

Since 1973, the Corporation has negotiated three year agreements with financial institutions, to guarantee up to 90% of individual loans to a maximum of 10% of the total loans issued by the institution in any three year period (see Note 19).

(e) Loan Guarantees

The Corporation guarantees certain farm and commercial loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees (see Note 19).

(f) Disaster Assistance Programs

In addition to programs offered under the *Agriculture Financial Services Act*, the Corporation also administers three disaster assistance programs. The programs were used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two or five year periods.

During 1998, a sub-program was established to assist producers who had experienced several consecutive years of adverse conditions. Loans are made with a 7% interest rate for up to 10 years and interest can be deferred for up to the first two years.

During 1999, a sub-program was established to assist producers where grain, hay and pasture yields have been below Agriculture Financial Services Corporation's 70% coverage level in at least two of the last three years. For other commodities, the operation must have suffered a severe loss of revenue beyond normal income fluctuations associated with commodity price cycles. Loans are made with a 5% interest rate for up to 12 years and interest can be deferred for the first two years. Any legal costs and loan fees will be covered by the Corporation. The program expires on June 30, 2000.

(g) Canada-Alberta Partnership on Agri-food

This program provided financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provided loans for eligible projects, which were non-interest bearing for a maximum of five years.

(h) Indexed Deferral Plan

Prior to March 31, 1993, the Indexed Deferral Plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 5 Change in Accounting Policy

Pensions

The Corporation has changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. This change in accounting policy has been applied retroactively with restatement of comparative amounts. As a result of this change, the 1999 figures have been restated as follows:

	As Previously Reported	Change	Restated
		(in thousands)	
Due from Province of Alberta	$ 16,482	$ (838)	$ 15,644
Due from Government of Canada	61,302	78	61,380
Accounts payable and accrued liabilities	18,991	(795)	18,196
Contribution from Province of Alberta	70,710	201	70,911
Contribution from Government of Canada	108,259	30	108,289
Administration expenses	34,026	241	34,267
Surplus for the year	62,259	(10)	62,249
Surplus at end of year	309,672	35	309,707

Note 6 Accounts Receivable

	2000	1999
		(Restated)
	(in thousands)	
Premiums from insured persons:		
Crop Insurance program	$ 2,775	$ 1,318
Hail Insurance program	255	431
Farm Income Disaster Program Fees	750	1,175
Other	1,330	1,100
	5,110	4,024
Less allowances for doubtful accounts (Note 18)	(194)	(353)
	$ 4,916	$ 3,671

Note 7 Loans Receivable

Assuming that options to renew will be exercised, loans are repayable in installments due as follows:

	2000	1999
	(in thousands)	
Arrears of principal and interest	$ 12,611	$ 14,769
Principal due in : Year 1	50,676	49,946
2	53,495	50,722
3	53,421	50,609
4	53,453	49,814
5	52,696	50,855
Year(s) 6-10	232,033	217,689
Year(s) over 10	204,521	185,411
Amounts deferred under the Indexed Deferral Plan	5,999	7,539
	718,905	677,354
Add accrued interest	23,010	22,455
	741,915	699,809
Less allowance for doubtful accounts (Note 18)	(26,084)	(23,420)
Less accrued incentives	(2,335)	(2,212)
Less loan discounts	(3,294)	(3,058)
	$ 710,202	$ 671,119

Included in the preceding are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2000	1999
	(in thousands)	
Alberta Farm Income Disaster Loans	$ 15,883	$ –
Indexed Deferral Plan	5,999	7,539
Canada-Alberta Partnership on Agri-food	2,001	5,548
	$ 23,883	$ 13,087

The allowance for doubtful accounts of $26,084,000 (1999 $23,420,000) includes a specific allowance for $2,538,000 (1999 $2,914,000) on impaired loans outstanding of $14,856,000 (1999 $15,588,000), excluding unamortized loan discount.

The approximate fair value of loans receivable at March 31, 2000 is $642,451,000. Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Note 8 Investments

	2000	1999
	(in thousands)	
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 281,430	$ 158,909
Province of Alberta	–	5,196
Other provincial direct and guaranteed	92,561	102,346
	373,991	266,451
Fair value	371,397	267,283
Securities:		
Corporate	57,097	77,555
Fair value	57,141	77,579
	431,088	344,006
Accrued interest	8,005	3,048
	$ 439,093	$ 347,054
Fair value	$ 428,538	$ 344,862

Fair value is based on quoted market prices. Fair value does not include accrued interest.

Note 9 Property Held for Sale

Property held for sale has been acquired as a result of foreclosures, quit claims and other actions.

	2000	1999
	(in thousands)	
Cost of property	$ 879	$ 714
Less allowance for losses on realization (Note 18)	(838)	(587)
Estimated net realizable value	$ 41	$ 127

Note 10 Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		(in thousands)		
Land	$ 115	$ –	$ 115	$ 115
Building	2,919	(821)	2,098	2,215
Computer equipment	6,210	(4,865)	1,345	1,478
Software development costs	13,746	(1,375)	12,371	7,964
Equipment and furniture	2,113	(1,134)	979	914
Vehicles	1,115	(660)	455	526
	$ 26,218	$ (8,855)	$ 17,363	$ 13,212

Note 11 Estimated Indemnities Payable

	2000	1999
		(Restated)
	(in thousands)	
Farm Income Disaster Program	$ 226,350	$ 94,457
Crop Insurance	268	800
Wildlife Compensation	20	150
	$ 226,638	$ 95,407

Note 12 Crop Reinsurance Funds

Each year, based on a formula in the Canada/Alberta Crop Insurance Agreement, an agreed portion of crop insurance premiums was set aside in each of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta. In years when indemnities exceed funds available from the Crop Insurance Fund, after recoveries from reinsurers is exhausted (see Note 15), these reinsurance funds are used to pay unsatisfied indemnities. In the event one or both of these reinsurance funds is in a deficit position, the deficit will be funded through future years' premiums. The Crop Reinsurance Fund of Alberta is invested by the Corporation on behalf of the Province of Alberta and, accordingly, is shown as a liability of the Corporation to the Province. This liability of $53,528,000 (1999 $53,564,000) is equal to the closing surplus in the fund. The Crop Reinsurance Fund of Canada for Alberta is held by Canada.

	Crop Reinsurance Fund of Canada for Alberta		Crop Reinsurance Fund of Alberta	
	2000	1999	2000	1999
	(in thousands)		(in thousands)	
Opening surplus	$ 77,306	$ 77,272	$ 53,564	$ 53,586
Current year contributions	(71)	34	(36)	(22)
Closing surplus	$ 77,235	$ 77,306	$ 53,528	$ 53,564

Note 13 Debentures and Notes Payable

Debentures payable and notes payable to the Province of Alberta are comprised of the following:

	Calendar Year of Maturity	Weighted Average Interest Rate	Principal Outstanding 2000	Principal Outstanding 1999
			(in thousands)	
Short term notes	2000	5.22%	$ 148,218	$ 125,351
Debenture A	2004	9.55%	39,720	49,100
Debenture B	2004 - 2005	–	–	14,000
Debenture C	2005	8.53%	28,000	32,000
Debenture D	2006	8.23%	48,500	55,000
Debenture E	2006 - 2007	7.41%	52,800	59,400
Debenture G	2009 - 2010	–	–	57,230
Debenture H	2010 - 2011	8.50%	64,310	68,670
Debenture K	2011	8.16%	30,135	31,777
Debenture L	2001 - 2002	7.38%	21,237	34,035
Note payable 001	2011	7.56%	21,279	22,405
Note payable 002	2010	5.58%	46,973	50,031
Note payable 003	2013	5.39%	45,192	47,883
Note payable 004	2013	5.39%	32,164	–
Note payable 005	2016	6.52%	98,923	–
			677,451	646,882
Accrued interest			7,438	8,703
			$ 684,889	$ 655,585

Principal repayments due in each of the next five years are as follows:

	(in thousands)
Year ending March 31, 2001	$ 340,505
2002	$ 97,381
2003	$ 23,470
2004	$ 24,281
2005	$ 16,871

The approximate fair value at March 31, 2000 is $685,005,000 (1999 $672,335,000). Fair values for debentures and notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. These include a liquidity premium to reflect the fact that if the debentures and notes are sold, there will be a limited pool of these securities trading in the market; and that the debentures and notes would be new to the market and are not direct issues of the Province; a premium for periodic interest reset feature where applicable, and a factor to reflect the blended payment structure of the debentures and notes.

Note 14 Deferred Revenue

Deferred revenue is comprised of Canada-Alberta Partnership on Agri-food (CAPA) contributions, grants received from the Government of Canada and the Province of Alberta for capital asset acquisitions and premiums from insured persons for the 2000 crop year. The unamortized portion of these contributions is shown as Deferred revenue on the balance sheet and is comprised of the following:

	2000	1999
	(in thousands)	
Province of Alberta capital asset grants	$ 8,637	$ 6,459
Government of Canada capital asset grants	6,057	4,129
Deferred CAPA contributions	3,382	3,425
Premiums from insured persons	1,591	–
	$ 19,667	$ 14,013

Note 15 Reinsurance

The Corporation reinsures a portion of insurance contracts which reduces the liability of the Corporation. The Corporation has obtained reinsurance for Crop Insurance in addition to what is covered by the cost sharing agreement between the Province of Alberta and Government of Canada (see Note 3(b)) and Hail Insurance. For Crop Insurance, two layers of reinsurance were obtained resulting in coverage of annual losses in excess of annual premiums. The first layer covers 100% of losses between 115% and 140% of gross premiums with a maximum dollar limit of $37.4 million. The second layer covers 100% of losses between 140% and 180% of gross premiums with a maximum dollar limit of $59.9 million.

The Corporation has also obtained insurance for incremental crop loss adjusting expenses. The coverage is for 100% of loss adjusting expenses in excess of 2.5% of gross premiums if losses were greater than 115% of gross premiums with a maximum annual dollar limit of $3 million.

For Hail Insurance, a layer of reinsurance was obtained which covers 97.5% of losses between 110% and 125% of gross premiums paid by insured persons with a dollar limit of $2.9 million.

The figures shown on the Statement of Revenue, Expense and Surplus are net of the following amounts relating to reinsurance ceded to other reinsurers. The Contribution from Province of Alberta and Contribution from Government of Canada on the Statement of Revenue, Expense and Surplus include contributions for administration expenses. Amounts included in the following table pertain to contributions for premiums and related reinsurance premiums (amounts ceded).

	2000 Gross	2000 Ceded	2000 Net	1999 Net
		(in thousands)		
Crop Insurance				
Premiums from insured persons	$ 56,964	$ (4,040)	$ 52,924	$ 55,495
Contribution from Province of Alberta for premiums	44,175	(3,141)	41,034	50,021
Contribution from Government of Canada for premiums	44,175	(3,141)	41,034	40,302
Indemnities	57,221	–	57,221	103,258
Hail Insurance				
Premiums from insured persons	13,812	(173)	13,639	15,334
Indemnities	10,750	138	10,888	11,541

Note 16 Interest Revenue

The Corporation does not recognize interest revenue on loans receivable where collection of the interest is in doubt. The amount of unrecognized interest revenue for 2000 was $443,000. In 1999, certain loans which had been considered as impaired in previous years were no longer considered impaired. Therefore, unrecognized interest from previous years on these loans was recognized in 1999, resulting in a net recovery of interest for 1999 of $809,000.

Note 17 Pensions

The Corporation participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers established by the government effective July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $854,000 for the year ending March 31, 2000 (1999 $797,000).

Effective January 1, 1999, the Corporation's contribution to the Public Service Pension Plan was reduced by 0.3% of pensionable salaries.

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019,000 (1998 $4,355,000) and the Public Service Pension Plan reported a surplus of $517,020,000 (1998 $406,445,000). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33,000.

Note 18 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 6)	Loans Receivable (Note 7)	Property Held for Sale (Note 9)	Loan Guarantees (Note 19)	Total
			(in thousands)		
Allowances at March 31, 1998	$ 152	$ 20,487	$ 740	$ 7,126	$ 28,505
Transfers to property for sale in 1998-99	–	(95)	95	–	–
Provision for 1998-99	250	3,515	(174)	(3,986)	(395)
Write-offs in 1998-99	(49)	(487)	(74)	–	(610)
Allowances at March 31, 1999	353	23,420	587	3,140	27,500
Transfer to property for sale in 1999-00	–	(232)	232	–	–
Provision for 1999-00	32	6,463	390	(491)	6,394
Write-offs in 1999-00	(191)	(3,567)	(371)	-	(4,129)
Allowances at March 31, 2000	$ 194	$ 26,084	$ 838	$ 2,649	$ 29,765

Note 19 Contingencies and Commitments

	2000	1999
	(in thousands)	
Loan guarantees	$ 58,560	$ 65,025
Less allowance for losses (Note 18)	(2,649)	(3,140)
Total contingencies	$ 55,911	$ 61,885
Estimated farm loan incentives	$ 15,459	$ 13,276
Approved, undisbursed loans	35,411	23,028
Reinsurance	10,270	22,400
Total commitments	$ 61,140	$ 58,704

Contingencies under the Alberta Farm Development Loans program comprise $51,323,000 of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 2000 were $149,264,000 (1999 $162,709,000).

There are legal actions outstanding against the Corporation but it is expected that these actions will not result in significant costs to the Corporation.

Note 20 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies.

Lending staff manage the Corporation's significant credit risk exposure in the beginning and developing agricultural business loans by monitoring accounts very closely. This enables the Corporation to counsel owners of businesses to take quick action if problems start to occur and enables the Corporation to take prompt action to realize on its security. Security requirements for individual loans reflect the degree of risk in each particular operation. Businesses needing specialized and customized equipment, or those involved with new and emerging segments of agriculture, are required to have significantly higher security margins than enterprises in more traditional parts of agriculture. Although these measures do not eliminate the risk, they do reduce the risk of significant losses if there is a province-wide economic downturn in the agri-industry.

The Corporation, through its reinsurance broker, monitors the concentration of credit risk for the insurance contract it holds (see Note 15) with each reinsurer and evaluates the financial condition of each reinsurer. There is no significant reliance on any one reinsurer.

For insurance premiums receivable, a discount is provided for early payment of premiums. Payment arrangements are set for all customers not taking advantage of the offered discount. Outstanding premiums are closely monitored by insurance staff and collection action is taken promptly when required. Insurance contracts cannot be renewed if premiums for the prior year are outstanding at the renewal date.

(b) *Interest Risk*

Interest rate risk is the impact future changes of interest rates has on cash flows and fair value of assets and liabilities. To mitigate this risk, a matching is planned of repayment timing of amounts borrowed with loans made.

The Corporation has negotiated with Alberta Treasury to refinance long-term debt over the next two years. As outstanding Heritage Fund debentures reach five-year interest re-negotiation dates, these debentures will be paid out and replaced with long-term borrowing with fixed interest rates. Terms of this replacement borrowing - and any borrowing needed to fund new loans made by the Corporation - will be based on fixed interest rate financing, and terms will be designed to bring about appropriate matching of borrowing and lending amortization periods by 2002. This will minimize the interest rate risk on the existing portfolio.

Interest rates are fixed for the life of Beginning Farmer loans, the major portion of the Corporation's loan portfolio. The Corporation does not set these rates to reflect the cost of money in the market. To maintain the current interest rate for future Beginning Farmer loans if there are significant increases in market interest rates, increases in the contribution from the Province will be required.

The following provides a breakdown of the gaps between the debentures and notes payable and loan portfolio.

	Term to Maturity[1]				Not[2] Interest Rate Sensitive	2000 Total	1999 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
	(in thousands)						(Restated)
Direct farm loans	$ 11,507	$ 34,753	$ 152,448	$ 468,618	$ 12,115	$ 679,441	$ 644,125
Yield[3]	7.74%	7.63%	7.53%	7.47%		7.49%	7.55%
Commercial loans	4,773	19,164	4,397	130	2,297	30,761	26,994
Yield[3]	5.90%	9.27%	9.27%	12.00%		7.78%	6.70%
Total	$ 16,280	$ 53,917	$ 156,845	$ 468,748	$ 14,412	$ 710,202	$ 671,119
Yield[3]	7.20%	7.72%	7.58%	7.47%		7.51%	7.52%
Debentures & notes payable							
Province of Alberta	295,163	137,757	–	244,531	–	677,451	646,882
Yield[3]	7.59%	8.44%	–	6.09%		6.33%	6.73%
Accrued Interest	1,625	1,792	–	4,021	–	7,438	8,703
Total	296,788	139,549	–	248,552	–	684,889	655,585
Net gap	$ (280,508)	$ (85,632)	$ 156,845	$ 220,196	$ 14,412	$ 25,313	$ 15,534

The net gap position represents the mismatching of the financing with the loan portfolio at March 31, 2000. The gaps provide an indication of the potential risks to the Corporation if interest rates change. The gaps will change dramatically as the Heritage Fund debentures are refinanced. At March 31, 2000 an immediate and sustained increase in interest rates by 1% would decrease the surplus for the next fiscal year by $20,275,000. A corresponding decrease in interest rates would increase the surplus by a similar amount over the same period.

This gap analysis does not include the investment portfolio, which is disclosed separately on the next page. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

The Corporation's Investment Policy is set with terms that attempt to anticipate the expected future cash flows of the Crop and Hail fund. The expected future cash flows are based on historical information modified for current factors that may impact historical results.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity[1]				2000	1999
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
	(in thousands)					
Bonds & debentures	$ 48,729	$ 299,385	$ 13,491	$ 12,386	$ 373,991	$ 266,451
Yield[3]	4.96%	5.87%	5.51%	5.95%	5.74%	5.08%
Securities:						
Corporate	–	57,097	–	–	57,097	77,555
Yield[3]	–	6.55%	–	–	6.55%	4.88%
	48,729	356,482	13,491	12,386	431,088	344,006
Accrued interest	1,374	6,111	231	289	8,005	3,048
	$ 50,103	$ 362,593	$ 13,722	$ 12,675	$ 439,093	$ 347,054

(1) For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For debentures and notes payable, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the long-term debt. The interest rates are fixed for either a five year period or until maturity. Repayment is either by semi-annual or annual installments of principal. The Provincial Treasurer may permit all or part of debentures to be redeemed by the issuer prior to maturity without penalty and the Corporation will redeem debentures when cash flow is adequate and the Provincial Treasurer authorizes redemption. For investments, term to maturity classifications are based on contractual maturity of the security.

(2) Includes indexed deferral loans, net impaired loans, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

(3) For loans and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For debentures and notes payable, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

Note 21 Related Party Transactions

Sufficient information is provided throughout the statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2000	1999 (Restated)
	(in thousands)	
Interest expense - Province of Alberta	$ 46,822	$ 51,393
Administration expense - Province of Alberta	1,390	1,369
Investment income - Province of Alberta	171	585
Accrued interest receivable - Province of Alberta	–	218

Note 22 Subsequent Events

(a) Private Reinsurance

On April 1, 2000, the Corporation entered into a reinsurance agreement that provides for a net reduction of $6.5 million in crop reinsurance premiums for 2001.

(b) Crop Insurance

The Province of Alberta announced that the Corporation will provide a credit to all producers purchasing all-risk crop insurance for 2001. This measure will cost approximately $20 million and will result in a premium reduction of 30% of each producer's premiums, regardless of the coverage level chosen. The $20 million reduction will be reflected as a reduction to premiums from insured persons, net but will not reduce provincial and federal government contributions to the program.

Note 23 Comparative Figures

The 1999 figures have been reclassified and restated where necessary to conform to 2000 presentation.

Schedule of
Revenue, Expense *and* Surplus

For the year ended March 31, 2000

(in thousands)

	2000	1999	2000	1999	2000	1999
	Crop Insurance	Crop Insurance	Farm Income Disaster	Farm Income Disaster	Beginning Farmer Lending	Beginning Farmer Lending
		(Restated)		(Restated)		(Restated)
Revenue						
Premiums from insured persons, net (Note 15)	$ 52,924	$ 55,495	$ –	$ –	$ –	$ –
Interest (Note 16)	345	369	23	22	44,367	45,067
Contribution from Province of Alberta, net (Note 15)	50,121	57,853	132,062	(2,184)	10,758	11,855
Contribution from Government of Canada, net (Note 15)	50,121	48,133	102,569	60,000	–	–
Investment income	17,328	13,174	362	987	376	349
Fees and other income (Note 3 (c))	307	232	1,302	1,026	1,487	1,173
Amortization of loan discounts	–	–	–	–	638	1,377
	171,146	175,256	236,318	59,851	57,626	59,821
Expense						
Indemnities (Note 15)	57,221	103,258	231,413	56,127	–	–
Interest	–	–	–	–	41,015	45,345
Administration, Schedule 2 (Note 3(c))	18,477	15,895	4,905	3,729	8,490	8,147
Farm loan incentives	–	–	–	–	4,319	3,856
Selling commissions	–	–	–	–	–	–
Provision for doubtful accounts and for losses (Note 18)	(20)	173	–	–	3,802	814
	75,678	119,326	236,318	59,856	57,626	58,162
Excess (deficiency) of revenue over expense before recoveries	95,468	55,930	–	(5)	–	1,659
Recoverable from Government of Canada	–	–	–	–	–	–
Recoverable from Province of Alberta	–	–	–	–	–	–
	–	–	–	–	–	–
Surplus (deficit) for the year	95,468	55,930	–	(5)	–	1,659
Surplus (deficit) at beginning of year	252,199	196,269	–	5	–	(1,659)
Surplus at end of year	$ 347,667	$ 252,199	$ –	$ –	$ –	$ –

Schedule 1

2000 Hail Insurance	1999 Hail Insurance (Restated)	2000 Commercial Lending	1999 Commercial Lending (Restated)	2000 Wildlife Comp.	1999 Wildlife Comp. (Restated)	2000 Other	1999 Other (Restated)	2000 Total	1999 Total (Restated)
$ 13,639	$ 15,334	$ –	$ –	$ –	$ –	$ –	$ –	$ 66,563	$ 70,829
115	136	1,573	1,406	–	–	4,223	2,869	50,646	49,869
–	–	4,137	3,506	1,378	289	3,960	(408)	202,416	70,911
–	–	43	93	818	26	18	37	153,569	108,289
2,687	3,664	8	17	32	96	119	121	20,912	18,408
410	412	465	562	24	25	469	539	4,464	3,969
–	–	342	540	–	–	101	224	1,081	2,141
16,851	19,546	6,568	6,124	2,252	436	8,890	3,382	499,651	324,416
10,888	11,541	–	–	2,065	302	137	64	301,724	171,292
–	–	2,160	2,195	–	–	3,647	3,903	46,822	51,443
1,667	1,639	3,018	2,807	187	134	2,643	1,916	39,387	34,267
–	–	–	–	–	–	1,318	2	5,637	3,858
1,611	1,704	–	–	–	–	–	–	1,611	1,704
26	43	1,390	108	–	–	1,196	(1,533)	6,394	(395)
14,192	14,927	6,568	5,110	2,252	436	8,941	4,352	401,575	262,169
2,659	4,619	–	1,014	–	–	(51)	(970)	98,076	62,247
–	–	–	–	–	–	21	1	21	1
–	–	–	–	–	–	30	1	30	1
–	–	–	–	–	–	51	2	51	2
2,659	4,619	–	1,014	–	–	–	(968)	98,127	62,249
57,508	52,889	–	(1,014)	–	–	–	968	309,707	247,458
$ 60,167	$ 57,508	$ –	$ –	$ –	$ –	$ –	$ –	$ 407,834	$ 309,707

Schedule of Administration Expense

For the year ended March 31, 2000

(in thousands)

	2000	1999 (Restated)
Salaries and benefits (Note 17)	$ 19,353	$ 17,269
Contracted services	3,954	3,527
Adjusters' wages and benefits	3,412	2,458
Amortization of capital assets	2,536	1,117
Office accommodation costs	2,494	2,066
Travel and automobile	2,473	2,449
Data processing	1,133	1,000
Stationery and supplies	1,027	904
Telecommunications	692	859
Advertising	482	395
Equipment, rental and maintenance	433	735
Professional services	404	362
Training, meetings, seminars, conferences	294	256
Directors' fees and expenses	292	232
Postage and freight	226	166
Insurance	88	74
Grain grading	43	50
Collection commissions	39	327
Bank charges	12	21
	$ 39,387	$ 34,267

Schedule of Salaries and Benefits

For the year ended March 31, 2000

(in thousands)

	2000			1999
	Salary and Wages[1]	Benefits and Allowances[2]	Total[3]	Total[3] (Restated)
Chair	$ 48	$ –	$ 48	$ 41
Board members	150	4	154	132
President and Managing Director	122	37	159	148
Vice President, Field Operations	107	27	134	128
Vice President, Finance and Administration	107	24	131	125
Vice President, Research, Information and Development	107	23	130	124
Vice President, Information Technology	36	9	45[4]	–

(1) Salary and wages are fees for Chair and Board members and regular base pay for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships and vacation payouts. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) Salary and benefits total for 1999 has been restated to include an achievement bonus for the year. Figures for 2000 do not include an achievement bonus because the amount of the bonus for each employee has not been determined.

(4) Employment commenced on November 22, 1999. Salary and benefits are for the period November 22, 1999 to March 31, 2000.

AFSC Regions and Districts

Fairview Region
Camrose Region
Red Deer Region
Lethbridge Region
Regional and District Office
District Office

AFSC Corporate Headquarters

LACOMBE:
5718 - 56 Avenue
Lacombe, Alberta
T4L 1B1
(403) 782-8200

CAMROSE:
4910 - 52 Street
Camrose, Alberta
T4V 4E8
(780) 679-1311

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